

Talking Points
FY 2011 EBR Presentation
November 16, 2009

- As the law requires, I am today submitting a balanced executive budget recommendation for Fiscal Year 2011
- FY 2011 involves substantially less revenue than in previous appropriations, which, coupled with unavoidable increases in spending in some programs, and the loss of federal stimulus money, requires dramatic spending reductions in both the short and long term.
- While many of these spending reductions will fundamentally alter how the government serves our citizens, I believe in many areas, including education, they will ultimately increase the quality of service.

Economic Overview

- State Tax Revenues are fundamentally driven by consumer spending. High unemployment and reduced access to credit will continue to put downward pressure on consumer spending.
- The recession may have technically ended but history shows us that we can expect high unemployment for at least 30 months.
- For example: Although the recession of the early 1980s technically ended in 1982, MS saw unemployment in the double digits until September 1987 - nearly five years later.
- The executive director of the nonpartisan National Governors Association says that **“The bottom line is that states will not fully recover from this recession until late in the next decade.”**

Revenue Estimate and Structural Deficit

- My budget is based on the \$4.562 billion general fund revenue estimate adopted by the Joint Legislative Budget Committee, and which I cautiously accepted.
- This estimate is around \$370 million less than we allocated in FY 2010, but the crisis we face is far greater than \$370 million.
- In addition to having less money to spend in 2011, the state will also be forced to spend additional moneys on certain programs.
- For instance, because of the loss of ARRA funds, and projected increases in the cost of providing health care, Medicaid will require more than \$200 million in additional funds for FY 2011.
- If the PERS board goes forward with plans to increase the employer contribution, the state will have to spend an additional \$70 million funding the public employees retirement system.
- By adding the revenue shortfall and the projected increased costs, we estimate a total structural deficit of \$715 million in FY 2011.
- This number becomes all the bleaker in FY 2012, when we will no longer have federal stimulus money to prop up the budget.
- When the FY 2011 structural deficit is added to the decrease in stimulus money and the projected increase in Medicaid costs, the structural deficit in FY 2012, is \$1.224 billion – equivalent to more than 20% of the original FY 2010 budget.
- These dramatic shortfalls require meaningful reform of what government does, and how it does it; this year's budget cannot be business as usual.

Budget Overview

- In my FY 2011 budget, most agencies see cuts of 12% below FY 2010 appropriated levels.
- We must be prudent in using our state's rainy day fund. I will continue to honor the commitment the Legislature and I made last year to use the rainy day fund over a four-year period; thus I am recommending that MS use no more than 1/3, or \$78M, of our remaining reserve funds.
- The funding recommendations in my budget prioritize the following:
 - o **Job creation** – Where an agency plays a role in job creation, it is reflected in my recommended funding for it.
 - o **Revenue collection** – I propose increasing the Tax Commission's budget so it can hire additional auditors to collect taxes the state is already owed.
 - o **Public Safety** – I recommend law enforcement agencies take less of a spending reduction, so they continue the vital service of protecting Mississippi families.
 - o **Education** – We must save money, while not diminishing educational opportunities, by reducing administrative costs, restructuring our school districts, and calling on districts to use their own rainy day funds.
 - o **Efficiency and Flexibility** - Government at all levels must operate more efficiently, and agency heads must have the flexibility to manage their agencies and organize personnel without outside micromanagement.
 - o **Medicaid** – Medicaid has identified some cost savings, but to realize substantial savings, it will be necessary to change state law so we spend less without harming the quality of service provided to our citizens.

Education

- Public education (K-12, CJs and IHL) accounts for more than 60% of our state support budget; it is impossible to balance the budget without reducing education.
- K-12 receives \$230 million less in FY 2011 than was appropriated in 2010, a reduction of around 9.3%. MAEP will receive \$237 million less in FY 2011 than in FY 2010, a reduction of around 10.9%.
 - o Consolidate 1/3 of existing school districts: \$66M
 - o Merge MS School for the Arts w/ School for Math and Science: \$1M
 - o Reduce Library Commission subsidies by 33%: \$3.6M
 - o Suspension of teacher STEP automatic pay increase program: \$18M
 - o Move School for Blind/Deaf to School for Arts Bldg or Oakley Facility
 - o Districts use portion of rainy day funds” (\$516 million as of July 08)
 - o National Board Certification – hold harmless
- To offset use of Schools’ rainy day funds, create a \$35 million Education Liquidity Fund for struggling districts
- Community and Junior Colleges receive \$28.9 million less, a reduction of 11.5%.
 - o Consolidate administrative functions at 1 entity
 - o Consider consolidating 15 separate CCs to a lesser number
 - o Change SBCJC to governing board (or completely eliminate: \$8M)
 - o Downsize or eliminate athletics at CCs, which cost \$20M in 2007
 - o CCs use portion of rainy day funds (\$52M)
 - o Eliminate unnecessary satellite campuses

- o Move votech dollars from MDE budget to CC budget for enhanced workforce/dual enrollment opportunities
 - o Certain workforce programs – hold harmless
- The Institutions of Higher Learning receive \$67 million less, a reduction of 9.7%
 - o Merge MUW with MSU; merge MVSU and ASU with JSU: \$18.4M
 - o Consolidate MSU ag budgets; reduce funds for MSU, ASU ag: \$12M
 - o Consolidate administrative functions at 1 entity
 - o IHL entities use portion of rainy day funds (\$190M)

Medicaid

- Medicaid is an entitlement program, and healthcare inflation and federal law on benefits limit our ability to reduce costs.
- Medicaid receives slightly more than \$200 million more in FY 2011, reflecting an \$88.9 million increase in projected program cost, and \$114.3 million to replace non-recurring federal stimulus money. This reflects a roughly 48% increase in state support over FY 2010.
 - o Generate \$25M in savings through rolling back non long-term care and non-hospital provider rates; increasing long-term care provider assessment; re-evaluating all hospital inpatient provider rates; implementing ambulatory payment class reimbursement rates for all hospital outpatient reimbursement and implementing lower-of-logic for all Medicare Part B crossover claims.
 - o Reduce dialysis spending by 25%: \$1M
 - o Raise hospital assessment from \$56.75M to \$75M

- o Support expansion of MS Coordinated Access Network (MS CAN)
- o Decrease costs by cutting \$4M in Medicaid administrative budget

Selected Other Agencies

- The Department of Mental Health receives \$18 million less, a reduction of 6.6%.
 - o Close 4 DMH facilities and six crisis centers (\$18 million savings in FY 11, \$28 million in FY 12)
- Department of Human Services receives \$15 million less, a reduction of 12%.
 - o Close Oakley Training Facility (\$22 million savings, some sent to support local juvenile detention facilities)
- Although in total, the Tax Commission receives \$23M less, a reduction of 31%, this is a result of eliminating \$27 million for the car tag fund.
 - o \$4M to hire new auditors for increased revenue (\$32M)
 - o Privatize wine functions of ABC to generate \$2.5M in new revenue
- Corrections receives \$19.4 million less, a reduction of 6%.
 - o Reduce reimbursement rate for local jails by 33%; Broaden range of inmates eligible for 30/30 program; reduce regional and private prison population; find additional healthcare savings through Medicaid inmate healthcare; review prisoner capacity

Consolidation and Funding Elimination

- I propose achieving savings by consolidating existing agencies, to reduce costs:

- o Merge w/Dept of Ag: Forestry Commission, Animal Health, Soil and Water Conservation, Fair Commission, Registered Foresters, Veterinary Medicine, and Egg Marketing Board: \$4M
- o Merge Dept of Banking and Consumer Finance with Secretary of State's Office
- o Merge Grand Gulf Military Monument with MS Dept of Archives
- Discontinue state funding for MS Technology Alliance (MDA can perform these functions), Commission on Status of Women (roll into AG's office), Enterprise for Innovative Geospatial Solutions (roll into IHL), and MS River Parkway (roll into MDA).

REFORM PERS

- o PERS Board has proposed increasing the employer (taxpayer) contribution for the state retirement system by 1.56%, at a cost of \$70M to the general fund. This does not include another \$20M that would have to be funded by local cities and municipalities who participate in the program.
- o Because the employee contribution has not increased in nearly two decades, I am proposing that the increased costs be funded by employees who are the beneficiaries of the system, and not by taxpayers. Everyone should pay their fair share.
- o PERS Board says that employer contribution will need to go to 18% in the next two years, costing an additional \$270 million per year.
- o Roll back excessive retirement benefits in the late 90s but not funded by the Legislature.

No funding for increase in State Health Insurance premiums

- As a preliminary measure, the State Health Insurance Board voted to increase premiums by 11%, resulting in a cost to the state of \$58M (with \$29.3M coming from the general fund). My budget does not include funding for increased insurance costs, and I am pleased the board will meet again to discuss this important issue.
- We should recalibrate the insurance funding mechanism for those retirees who are not eligible for Medicare. Taxpayers currently subsidize this health insurance heavily and I believe a more equitable approach is to increase these premiums by 15 percent in each of the next four years.
- In addition, I appreciate that the Board is currently working on ways to lower costs, such as implementing programs to encourage usage of generic drugs or instituting a surcharge for tobacco users.

Lump Sum and Freedom from Personnel Board

- Lump sum appropriations and relief from SPB regulations should be the standard
 - I am recommending that the Legislature allow our agencies maximum personnel and budgeting authority by relieving them from the regulations of the State Personnel Board for at least 2 years and providing every state agency with lump sum budgets.
 - After all, to achieve many of the necessary cost-savings proposed in my budget will require our executive directors to have maximum flexibility. I believe they can not only meet but exceed our cost-savings goals if we entrust them with the management tools to do so.

Conclusion

- The budget I recommend today is dramatic, but not draconian. While services will in some instances be

delivered differently, the overall quality of the service will be better.

- Some actions, like the use of schools' rainy day balances, are one-time fixes. Others, like consolidation of school districts and universities, will produce savings for years and decades to come.
- The legislature may or may not accept all of these recommendations, and I welcome their alterations and additional proposals for FY 2011, FY 2012 and beyond. We must all simply accept that in the coming years, the budget cannot be business as usual.
- Looking toward the future, I have profound and abiding optimism in Mississippi's economy and our future. We were late feeling the economic downturn because of our state's resilience in economic growth, and we will hit the ground running when the recession ends.
- In addition to our momentum (per capita income increased 27% in five years, and low-skilled, low-paying jobs were replaced by higher skilled, higher tech, higher paying jobs), we have delayed economic development projects in the pipeline.
- Toyota's continued commitment means in a few years our Toyota plant and half of its suppliers will open with more than 4,000 jobs.
- PACCAR's engine plant in Columbus will be open within a year or two. Development at the Port of Gulfport will be in high gear soon, and several energy projects are going forward.
- The biggest issue is our attitude. If we still have the can-do attitude about job creation and Mississippi's future that prevailed during 2004-2008, we will be a national leader in economic growth and job creation.